

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-05 H-01 INR-07 L-03  
NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06  
ACDA-07 TRSE-00 EB-08 OMB-01 /075 W  
-----072449 101732Z /44

R 101512Z AUG 77  
FM USMISSION NATO  
TO SECSTATE WASHDC 5314  
SECDEF WASHDC  
INFO AMEMBASSY ANKARA  
AMEMBASSY ATHENS  
AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY COPENHAGEN  
CINCUSAREUR HEIDELBERG GER  
AMEMBASSY LISBON  
AMEMBASSY LONDON  
CINCUSNAVEUR LONDON ENG  
AMEMBASSY LUXEMBOURG  
CINCLANT NORFOLK VA  
USLOSACLANT NORFOLK VA  
AMEMBASSY OSLO  
AMEMBASSY OTTAWA  
CINCUSAFE RAMSTEIN AB GER  
AMEMBASSY ROME  
USNMR SHAPE BE  
AMEMBASSY THE HAGUE  
USCINCEUR VAIHINGEN GER

C O N F I D E N T I A L SECTION 01 OF 03 NATO 07694

NOFORN

E.O. 11652: GDS  
TAGS: MARR NATO MILI ECON  
SUBJECT: IMMINENT NEGOTIATIONS ON SIZE AND COST SHARING  
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FORMULA FOR THE INFRASTRUCTURE PROGRAM, SLICES XXXI -  
XXXV (1980 - 1984)

REF: USNATO 5447, 161217Z JUNE 77 (NOTAL)  
SUMMARY: CURRENT INFRASTRUCTURE FUNDING IS AGREED THROUGH  
SLICE XXX (1979). SLICE XXXI PLANNING WILL START IN LATE  
1978 AND THEREFORE REQUIRES EARLY AGREEMENT ON THE SIZE

AND COST SHARES FOR THE SLICE XXXI - XXXV PERIOD. INFRA-STRUCTURE COMMITTEE'S NEGOTIATIONS ARE EXPECTED TO START IN SEPTEMBER 1977. THIS MESSAGE SETS FORTH MISSION'S VIEWS ON US CONSIDERATIONS AND PROPOSED POSITIONS. ACTION REQUESTED: WASHINGTON CONCURRENCE AND/OR COMMENTS BY MID-SEPTEMBER. END SUMMARY.

1. FOLLOWING THE AGREEMENT ON INCREASE OF THE INFRA-STRUCTURE FUNDING CEILING FOR THE PERIOD 1975-1979, THE INFRASTRUCTURE COMMITTEE HAS DECIDED TO COMMENCE NEGOTIATIONS ON THE NEXT PERIOD IN THE FALL OF 1977. THE COMMITTEE HAS REQUESTED THAT MAJOR NATO COMMANDERS (MNCS) PREPARE REQUIREMENTS LISTS AND THAT NATIONS PROPOSE ANY NEW PROCEDURES, SUCH AS THE DANISH PROPOSAL OF A DEVICE TO PROVIDE FOR INFLATIONARY COST MOVEMENTS, BY MID-SEPTEMBER. WE SEE TWO VERY DIFFERENT, AND PERHAPS CONTRADICTIONARY ASPECTS - COST SHARING VERSUS SIZE OF PROGRAM - WHICH MAY HAVE TO BE RATHER DELICATELY BALANCED.

2. AT THE INFRASTRUCTURE COMMITTEE MEETING ON 26 JULY, SHAPE REP (UK COLONEL TURNER) STATED THAT IT WAS HIGHLY UNLIKELY MNCS COULD HAVE FULLY REASONED AND COSTED PROGRAM OF REQUIREMENTS IN THE EARLY FALL. HE BELIEVED, HOWEVER, TO THE GENERAL DERISIVE MERRIMENT OF THE COMMITTEE, THAT IAU ONE BILLION WOULD BE A GOOD PLANNING FIGURE FOR SHAPE (IAU ONE BILLION EQUALS \$ 3.738 BILLION).  
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US REP (LOVELAND) CHASTENED THE COMMITTEE FOR ITS DERISION AND POINTED OUT THAT THE OBVIOUS MINIMUM REQUIREMENT FOR THE 1975-1979 PERIOD OF SOME IAU 600 MILLION (THE TOTAL OF NATO FUNDS PLUS NATIONAL PREFINANCING) WOULD GROW BY A SEVEN PCT COMPOUNDED INFLATION RATE OVER FIVE YEARS TO SOME IAU 840 MILLION. IN ADDITION, HE NOTED THAT SEVERAL HIGH PRIORITY, EXPENSIVE PROJECTS SUCH AS NADGE IMPROVEMENTS, AMMUNITION SECURITY IMPROVEMENTS, AND AIRCRAFT SHELTERS HAVE HAD TO BE PREFINANCED BY THE NATIONS DURING THE 1975-79 PERIOD FOR LACK OF ADEQUATE INFRASTRUCTURE FUNDS. THESE PROJECTS CONSTITUTED A "MORTGAGE" OF SOME IAU 100 MILLION AGAINST FUNDS TO BE MADE AVAILABLE IN THE FUTURE. ADDITION OF NEW PROJECTS WHICH MIGHT RESULT FROM NATO'S CURRENT LONG-RANGE DEFENSE REVIEW COULD ALSO HAVE A MAJOR IMPACT ON THE REQUIREMENT FOR INFRASTRUCTURE FUNDS. HE BELIEVED, THEREFORE, THAT IAU ONE BILLION WAS ON THE CONSERVATIVE SIDE AS A STATEMENT OF NATO'S MINIMUM REQUIREMENTS, IRRESPECTIVE OF WHAT THE NATIONS MIGHT BE WILLING TO SPEND. IN THIS RESPECT, HE POINTED OUT THAT A FIVE-YEAR PROGRAM AT IAU ONE BILLION WOULD AMOUNT TO LESS THAN ONE-HALF OF ONE PERCENT OF NATO'S PROJECTED DEFENSE

EXPENDITURES DURING THAT PERIOD. THE SHAPE REP AGREED WITH THIS STATEMENT AND NOTED THAT THE RESULTS OF THE LONG-RANGE DEFENSE REVIEW WOULD NOT BE KNOWN BEFORE MID-1978, THUS THEY COULD VERY WELL LEAD TO A SUBSTANTIAL AMENDMENT TO THE MNCS' INITIAL REQUIREMENTS LIST.

3. WE HAVE LONG BEEN CONVINCED OF A REQUIREMENT FOR A SUBSTANTIALLY INCREASED INFRASTRUCTURE PROGRAM IN VIEW OF THE MAJOR BACKLOG OF ELIGIBLE INFRASTRUCTURE PROJECTS WHICH HAVE BEEN DEFERRED FROM EACH ANNUAL PROGRAM DURING

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-----072577 101756Z /44

R 101512Z AUG 77  
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C O N F I D E N T I A L SECTION 02 OF 03 NATO 07694

THE PRESENT COST SHARING PERIOD. IN APRIL, DURING HIS

APPEARANCE BEFORE THE HOUSE APPROPRIATIONS SUBCOMMITTEE  
ON MILITARY CONSTRUCTION, MISSION OFFICER (LOVELAND)  
MENTIONED IAU ONE BILLION AS A PROBABLE REQUIREMENT IN  
THE 1980-1984 PERIOD. THIS MENTION FOLLOWED A LONG DIS-  
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CUSSION ON THE REASONS WHY NATO HAD NOT FOUND SUFFICIENT  
FUNDS FOR NATO-ELIGIBLE HIGH PRIORITY US PROJECTS SUCH  
AS AIRCRAFT SHELTERS AND THE AMMUNITION SECURITY PROGRAM.  
IN ADDITION, OF COURSE, THE SUBCOMMITTEE WAS CONCERNED  
AT THE INCLUSION IN THE MILITARY CONSTRUCTION ARMY (MCA)  
PROGRAM OF SUCH ITEMS AS ADDITIONAL AMMO STORAGE AND  
POMCUS (PREPOSITIONED ORGANIZATIONAL MATERIEL CONFIGURED  
TO UNIT SETS) FACILITIES, SOME PORTION OF WHICH THEY  
BELIEVED COULD APPROPRIATELY HAVE BEEN CHARGED TO NATO  
FUNDS.

4. CURRENT NATO DISCUSSIONS WHICH COULD LEAD TO BROAD-  
ENED NATO INFRASTRUCTURE ELIGIBILITY CRITERIA ARE  
"READINESS" WHICH MIGHT WELL DICTATE PROVISION OF  
ADDITIONAL PREPOSITIONED STORAGE AND MAINTENANCE FAC-  
ILITIES, AND "USAGE RATES" OF AMMUNITION WHICH MIGHT  
REQUIRE NOT ONLY INCREASED SIZE OF FORWARD STORAGE  
FACILITIES, BUT ALSO SOMETHING BEYOND THE SEVEN-DAY  
REQUIREMENT IN ORDER TO MORE ADEQUATELY POSITION STOCKS  
TO THE FORWARD AREA. THESE TWO EXAMPLES ALONE COULD  
TRANSFER SUBSTANTIAL EXPENDITURE FROM THE MCA PROGRAM TO  
INFRASTRUCTURE, AND PERHAPS RELIEVE SOME OF THE PRESENT  
CONGRESSIONAL PRESSURE.

5. WE HAVE CONSIDERED THE ADVISABILITY OF DISCARDING  
PAST COST SHARING FORMULAE IN FAVOR OF A COMPLETELY NEW  
APPROACH TO BE FOUNDED ON ABILITY TO PAY, ECONOMIC/  
FINANCIAL BENEFITS, AND RELATIVE CONTRIBUTIONS TO OTHER  
ASPECTS OF NATO'S DEFENSE (PER REFTEL). SINCE PAST  
FORMULAE HAVE ALL BEEN BASED ON THE ORIGINAL 1950  
NEGOTIATION WHICH OCCURRED UNDER CIRCUMSTANCES WHICH  
HAVE EVOLVED CONSIDERABLY, SUCH AN APPROACH HAS SOME  
ATTRACTION. ON THE OTHER HAND, AS NOTED REFTEL, THERE  
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IS NO ASSURANCE THAT A NEW "TABULA ROSA" NEGOTIATION WOULD  
YIELD AN ACCEPTABLE US SHARE AND WE WOULD MUCH PREFER  
THE APPROACH OUTLINED IN PARAS 6-8 BELOW.

6. COST SHARING PROMISES TO BE A VERY PAINFUL SUBJECT

WITH SEVERAL OF THE NATO MEMBERS PRESENTLY IN DIFFICULT FINANCIAL STRAITS. HAPPILY, WE DO NOT FORESEE THE US AS A "DEMANDEUR" FOR A LOWER COST SHARE THIS YEAR. WE WILL, NEVERTHELESS, BE HARD PUT TO MAINTAIN OUR CURRENT "EFFECTIVE" 21.56 PCT SHARE, PARTICULARLY IF THE UK AND, PERHAPS, ITALY, SHOULD INSIST ON A REDUCTION IN THEIR SHARES. THE UK HAS A REASONABLE ARGUMENT FOR A REDUCTION FROM 12 PCT TO PERHAPS 8-10 PCT WHICH MAY, AS EXPLAINED BY LOVELAND TO THE HOUSE APPROPRIATIONS SUB-COMMITTEE, REQUIRE AN INCREASE IN US SHARE TO AS MUCH AS 23 PCT. A MAJOR DIFFICULTY MAY ALSO COME FROM CONTINUED GERMAN (AND PERHAPS OTHER) OPPOSITION TO EVOLUTION OF THE FRG COST SHARE INTO THE HIGHEST OF THE ALLIANCE. IF WE CANNOT RESOLVE THAT PROBLEM, WE MAY AGAIN BE FACED WITH A REQUIREMENT FOR A US SPECIAL PROGRAM WHICH, TO THE FRG, THE UK, AND SOME OTHERS, HAS BECOME ANATHEMA, BUT MAY PROVE TO BE THE ONLY METHOD BY WHICH THE US "EFFECTIVE" SHARE CAN BE MAINTAINED BELOW 27 PCT.

7. THE US HAS TWO VERY COGENT ARGUMENTS TO RETAIN SOMETHING CLOSE TO ITS CURRENT INFRASTRUCTURE COST SHARE. AS EXPLAINED IN REFTTEL, BOTH THE RELATIVELY HIGH US GNP PERCENTAGE DEVOTED TO COMMON DEFENSE AND THE SMALL FLOW-BACK OF INFRASTRUCTURE FUNDS TO US CONTRACTORS WOULD MILITATE FOR A US SHARE SOMEWHAT LOWER THAN MIGHT OTHERWISE BE EXPECTED. IN ADDITION, OUR BALANCE OF PAYMENTS POSITION, WITH A PREDICTED \$25 BILLION DEFICIT

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C O N F I D E N T I A L SECTION 03 OF 03 NATO 07694

IN 1977, COULD ALSO PLEAD FOR A REDUCTION IN THE US  
COST SHARE, AND WE BELIEVE THAT CONGRESS WILL SO CONSIDER.  
IT APPEARS USEFUL, THEREFORE, TO START THE NEGOTIATIONS  
FROM A US POSITION FAVORING MAINTENANCE OF THE CURRENT  
EFFECTIVE 21.56 PCT WITH, SHOULD IT BECOME NECESSARY,  
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AN AGREEMENT TO ACCEPT A PRO RATA SHARE OF WHATEVER  
DECREASE IS NECESSARY IN THE SHARES OF ALLIES WITH OBVIOUS  
FINANCIAL PROBLEMS.

8. WE BELIEVE THAT THE ABOVE US POSITIONS ON AN  
INCREASE IN THE SIZE OF THE INFRASTRUCTURE PROGRAM AND  
INSISTENCE ON MAINTAINING SOMETHING CLOSE TO THE CURRENT  
US COST SHARE MAY WELL BE SOMEWHAT MUTUALLY EXCLUSIVE.  
IN THE END, WE MAY FIND THAT, IF WE WISH TO FOSTER THE  
EFFORT TO PERHAPS DOUBLE THE SIZE OF THE INFRASTRUCTURE  
PROGRAM (AND THUS INCLUDE A NUMBER OF PROJECTS WHICH  
WOULD OTHERWISE HAVE REQUIRED US FUNDING), WE WILL HAVE  
TO MAKE A SMALL SACRIFICE IN OUR COST SHARE - TO PERHAPS  
AS MUCH AS 25 PCT, THE IMPLICIT CONGRESSIONAL LIMIT ON  
US CONTRIBUTIONS TO BUDGETS OF INTERNATIONAL ORGANIZA-  
TIONS. ANALYSIS OF THE RELATIVE FINANCIAL BENEFITS TO  
THE US MAY VERY WELL SUPPORT SUCH AN ACTION FROM A PURE  
US FINANCIAL VIEWPOINT.

9. REQUEST WASHINGTON GUIDANCE FOR USE IN START OF  
NEGOTIATIONS IN MID-SEPTEMBER 1977. GLITMAN

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## Message Attributes

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